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# NSW budget delivers a fat surplus, but mixed bag for Turnbull's chances

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# NSW budget delivers a fat surplus, but mixed bag for Turnbull's chances

## **Abstract**

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## THE CONVERSATION



### NSW budget delivers a fat surplus, but mixed bag for Turnbull's chances

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NSW treasurer Gladys Berejiklian has handed down a \$3.7 billion surplus. AAP/Paul Miller

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At the most basic level a government budget is about two things: revenue and spending. True happiness, as Mr Micawber would say, lies in ensuring that outgoings do not exceed what comes in.

Under that definition NSW treasurer Gladys Berejiklian would be very happy today, having handed down a budget with a surplus of \$3.4 billion this financial year (and \$3.7 billion over 2016-2017), as well as forecasts of surpluses (albeit slimmer) in the forward estimate years ending 2019-20. And this feeling may well spill over to the Federal Coalition in coming election.

The results, mainly off stamp duties received from residential property and its participation in the federal government's asset recycling incentive program, which rewards it for investment in infrastructure and privatisation of state assets, sees the state's debt drop to just .01% of Gross State Product, backing her claim six months ago that NSW was debt free for the first time in 20 years.

It's not all good news, with Berejiklian noting NSW would lose GST payments from the Commonwealth by some \$850 million, equating to \$10.8 billion in lost revenue by 2019-20.

State governments are technically sovereign on their spheres of competence but in the real world they are highly dependent on the commonwealth government because of vertical fiscal imbalance. They cannot do what they have to do without a regular influx of money from the Commonwealth government. This constrains their freedom of action.

Berejiklian, claimed that this was a function of the success of the NSW economy and

government financial management which perhaps only underlines some of the perversities of Australian federalism in action.

The NSW state government has claimed \$3.4 billion dollar surplus for 2015-16 and says that it will deliver surpluses of about \$2 billion a year for the next four years. However, it was recently reported that there could be a \$17 billion "black hole" in future budgets over the next few decades.

One issue is that state revenue quite dependent on the property market and its capacity to deliver stamp duty. The capacity of NSW by itself as with all the states to raise revenue is limited. This is why state finances are vulnerable to the up and downs of the property market.

Given that the boom in the construction of apartments appears to be coming to an end this may mean the NSW's capacity to remain "debt free" is very limited. This is perhaps why Mike Baird at the beginning of 2016 was such a vocal supporter of an increase of the rate of taxation imposed for the GST.

In this context, two of the taxation measures in the budget are interesting. One is the imposition of an additional stamp duty and land tax for foreign investors.

The other is the reduction of certain types of duty for business. Both of these resonate with the federal election, the desire to make those from elsewhere pay tax and the reduction in company tax by the Liberals.

Both of these measures indicate important aspects of any Liberal strategy; on the one hand the need to raise money in a way that does not impose on voters, on the other hand a desire to lift the taxation burden on business so that it can flourish, create jobs and create more revenue through other forms of taxation.

Another theme which resonates with the federal situation is that the treasurer has also indicated her desire to cut government costs through an efficiency dividend. This is something that her federal counterpart seems reluctant to do, although as Opposition member Ryan Park has suggested, such savings in public service spending have to be balanced against increased spending on consultants.

At the moment NSW is performing well economically, which will help the federal Liberal Party in its quest to be returned to office. Therefore a steady as she goes budget, even if it is at a time when the property boom is winding down, seems appropriate. The absence of nasties, especially in the context of "no debt", creates a mood of confidence and prevents the fostering of any real grievances amongst the ordinary voter which could express itself in the federal election.

Moreover, the announcement of increased funding for both education and roads, both issues which resonate in Western Sydney, will help the Liberal Party in crucial marginal seats in that area.

The real issue with such a budget relates to those things which are not being discussed a lot. In the longer term NSW, like all the states, faces massive costs, especially areas related to an ageing population and health. As with education, these are things which the state can afford to pay for without assistance from the Commonwealth government.

In this regard, the real issue is how rising health costs will be funded over the next decade. As Stephen Duckett has pointed out neither party at the federal level has proposed "any plan for funding hospital cost growth beyond 2020".

The federal election campaign has said a lot about spending but there has been little indication how the very real problems facing Australia as it moves close to the third decade of the century will be funded. There is a certain air of unreality that somehow we will, like the British, “muddle through” so that everything will work out. For the moment everything is in a holding position.

One gets a similar feeling about the NSW budget. There is the afterglow of a property boom which has done wonders for government finances. But there are also storm clouds on the horizon. Receipts from stamp duty can only go in one direction. The state is losing a good amount of its GST revenue. In the longer term real problems funding both health and education threaten.

But a state government can only do so much. It remains dependent on Commonwealth money. The real challenges over the next few years will be to re-negotiate the federal compact, a task begun by Tony Abbott, and to find ways of ensuring that health costs can be funded and do not weigh down the public purse.

In the meantime, both the Federal Government and the Government of New South Wales enjoy a bit of an Indian Summer, the calm before the storm. From that perspective one should expect a good showing by the Liberal Party at the coming Federal elections in NSW. The worrying thing is that they might not be doing enough to prepare for the storm.



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